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Casenotes

A JURISDICTIONAL “NIGHTMARE”: DETERMINING WHEN AN INTERDEPENDENT COPYRIGHT AND CONTRACT CLAIM “ARISES UNDER” THE COPYRIGHT ACT IN *SCHOLASTIC ENTERTAINMENT, INC. V. FOX ENTERTAINMENT GROUP, INC.*

I. INTRODUCTION

No area of law plays a more vital role in the entertainment industry than intellectual property, which continues to evolve as one of today's most exciting and challenging legal fields.¹ With the advent of the digital age, intellectual property has gained prominence in its protection of copyright, patent, and trademark owners.² Each year, individuals spend billions of dollars to protect their property.³ Despite this tremendous financial outlay, any protection afforded relies wholly upon the ability of intellectual property owners to en-

1. See *Academic Programs: Intellectual Property Law Program*, at http://www.car-doza.yu.edu/academic_prog/intellectual.asp (last visited May 1, 2004) (suggesting importance of intellectual property law); see also D.L. Hawley, *Intellectual Property Field Grows*, LEGAL ASSISTANT TODAY, Jan./Feb. 2000, at ¶ 1 (basing comment from on survey conducted in 1999), available at http://www.legalassistanttoday.com/profession/ip_field.htm. An independent research company conducted the survey by randomly contacting 200 attorneys from the 1,200 largest law firms across the country. See *id.* Almost sixty percent of respondents, when asked which area of law was growing most rapidly, cited intellectual property, which also topped the list in a similar survey two years prior. See *id.* According to U.S. court records, intellectual property suits continue to rise across the country. See *id.* Civil copyright, patent, and trademark suits collectively rose 2.5 percent between 1994 and 1998. See *id.*

2. See generally Corey Rayburn, Note, *After Napster*, 6 VA. J.L. & TECH. 16, ¶¶ 4-10 (2001), at <http://www.vjolt.net/vol6/issue3/v6i3-a16-Rayburn.html> (discussing history and growth of piracy); see also *Recording Industry Begins Suing P2P File Sharers Who Illegally Offer Copyrighted Music Online*, RECORDING INDUSTRY ASS'N AM., at <http://www.riaa.com/news/newsletter/090803.asp> (Sept. 8, 2003) (discussing actions taken in attempt to quell copyright piracy). For example, since the early 1990s, the recording industry has succumbed to a wave of ongoing digital piracy, or theft of copyright-protected music. See *id.* at ¶ 1. Today, after the rise of Napster and its sibling peer-to-peer networks, digital piracy has exploded. See *id.* at ¶ 26.

3. See generally *Intellectual Property Information/Definitions*, at http://www.research.uwaterloo.ca/tlo/IP_Info.htm (last visited May 1, 2004) (defining intellectual property and “authors” of intellectual property). Intellectual property refers to the intangible elements of certain types of property. See *id.* The owners of intellectual property are the creators or inventors/authors of the patents and copyrights. See Kroll: *Intelligence & Investigations Services*, at <http://www.Krollworldwide.com/services/investigations/ip/> (last visited May 1, 2004) (discussing potential loss of billions when companies fail to develop intellectual property protective strategies).

force their rights.⁴ Unfortunately, courts have struggled to create clear standards that sufficiently define the jurisdiction in which an intellectual property owner may seek protection.⁵ Failure to develop a consistent standard may therefore delay the adjudication of artists' rights, increase litigation costs, and most importantly, undermine their confidence in protection of their ownership rights.⁶

Federal subject matter jurisdiction under the United States Copyright Act ("Act") continues to present one of the "knottiest procedural problems in copyright jurisprudence."⁷ Federal courts have exclusive jurisdiction over any "civil action arising under any Act of Congress relating to . . . copyrights."⁸ It is also recognized, however, that federal subject matter jurisdiction does not exist simply because a case involves a copyright issue.⁹ Federal courts have

4. See generally *A Radical Rethink: The Best Way to Foster Creativity in the Digital Age is to Overhaul Current Copyright Laws*, ECONOMIST, Jan. 23, 2003 (discussing current worldwide battle concerning scope and enforcement of copyrights), available at http://www.economist.com/opinion/displayStory.cfm?story_id=1547223. For example, digital piracy threatens to overwhelm so-called "content" industries. See *id.* As the power and reach of the Internet continue expanding, the unlawful trading of perfect copies may ultimately prove catastrophic to the music, movie, and publishing industries. See *id.*

5. See, e.g., Jay S. Fleischman, Comment, *Swimming the Murky Waters: The Second Circuit and Subject-Matter Jurisdiction in Copyright Infringement Cases from T.B. Harms v. Eliscu to Schoenberg v. Shapolsky Publishers, Inc.*, 42 BUFF. L. REV. 119 (1994) (discussing difficulty federal courts experience in determining when interdependent copyright and contract claims "arise under" Copyright Act for jurisdictional purposes); see also Daniel E. Wanat, *Copyright and Contracts: The Subject Matter Jurisdiction of Federal Courts Under 28 U.S.C. § 1338(A)*, 11 DEPAUL-LCA J. ART & ENT. L. 361 (2001) (discussing difficulty federal courts experience in determining when interdependent copyright and contract claims "arise under" Copyright Act for jurisdictional purposes); James M. McCarthy, Comment, *Federal Subject Matter Jurisdiction: When Does a Case Involving the Breach of a Copyright Licensing Contract "Arise Under" the Copyright Act?*, 19 U. DAYTON L. REV. 165 (1993) (discussing difficulty federal courts experience in determining when interdependent copyright and contract claims "arise under" Copyright Act for jurisdictional purposes). See generally Michael A. de Freitas, Annotation, *Exclusive Jurisdiction of Federal Courts Under 28 U.S.C. § 1338(a) of Action Involving Breach of Contract Concerning Copyright*, 119 A.L.R. FED. 471 (1994) (noting difficulties among federal courts in their attempt to develop consistent standard when determining whether interdependent copyright claims "arise under" the Act).

6. For a discussion of the problems inherent in courts' inability to determine a consistent approach in defining the jurisdiction where an intellectual property owner may seek protection, see *infra* notes 48-156 and accompanying text.

7. 3 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT, § 12.01[A], at 12-14 (Matthew Bender & Co. ed., 2003) [hereinafter NIMMER] (explaining problem as involving division of jurisdiction between state and federal courts).

8. 28 U.S.C. § 1338(a) (2000).

9. See *Bassett v. Mashantucket Pequot Tribe*, 204 F.3d 343, 347 (2d Cir. 2000) (noting cases involving copyright issues do not automatically invoke federal jurisdiction); see also *Int'l Armor & Limousine Co. v. Moloney Coachbuilders, Inc.*, 272 F.3d 912, 915 (7th Cir. 2001) (noting federal courts do not necessarily have juris-

consistently dismissed complaints for lack of jurisdiction if they determine the claim to constitute a state law contract action “dressed up in copyright clothing.”¹⁰ As a result, federal courts continue to walk a fine line between “usurping” the power of the state courts and providing redress for copyright infringement.¹¹ Further complications to this balancing act arise with the interdependence of contract and copyright claims, which potentially masks the genuine issues in need of resolution.¹² Because of these complexities, the question of whether breach of a contract licensing agreement or copyright assignment gives rise to a federal cause of action under the Act has led courts in many circuits to claw their way through this murky area of law in an attempt to reach uniformity.¹³

This Note explores the Ninth Circuit’s recent attempt to provide further definition to one of the more complex areas of copyright law in *Scholastic Entertainment, Inc. v. Fox Entertainment Group*,

diction over all cases involving copyright). Federal courts have consistently dismissed complaints in copyright cases presenting questions solely concerning state contract law. See *id.*; see also *Vestron, Inc. v. Home Box Office, Inc.*, 839 F.2d 1380, 1381 (9th Cir. 1988) (noting federal courts do not necessarily have jurisdiction over all cases involving copyright). For a discussion of *Vestron*, see *infra* note 100 and accompanying text. See, e.g., *T.B. Harms Co. v. Eliscu*, 339 F.2d 823, 824 (2d Cir. 1964) (noting this principle traces to “precedents going back for more than a century”). See generally *Copyright Law — U.S. Federal Court Had No Jurisdiction over Dispute to Determine Validity of Attempt to Terminate License*, CONSEJO, at http://www.consejo.blogspot.com/2003_07_13_consejo_archive.html (July 18, 2003) (noting cases involving copyright issues do not necessarily guarantee existence of federal subject matter jurisdiction).

10. Appellee’s Brief at 16-17, *Scholastic Entm’t, Inc. v. Fox Entm’t Group, Inc.*, 336 F.3d 982 (9th Cir. 2003) (No. 02-55667) (noting federal courts dismiss complaints fashioned as copyright cases when presenting only issues of state contract law); see also *Dolch v. United Cal. Bank*, 702 F.2d 178, 180 (9th Cir. 1983) (stating contract questions depending on common law or equitable principles belong in state court); *Topolos v. Caldewey*, 698 F.2d 991, 993 (9th Cir. 1983) (noting fact that copyright as subject matter of contract does not automatically yield federal subject matter jurisdiction). For a discussion of *Topolos*, see *infra* notes 85-88 and accompanying text.

11. See *Scholastic Entm’t, Inc. v. Fox Entm’t Group, Inc.*, 336 F.3d 982, 986 (9th Cir. 2003) (noting difficulties inherent when determining whether civil actions concerning copyrights invoke federal subject matter jurisdiction). For a discussion of the facts of the *Scholastic* case, see *infra* notes 21-35 and accompanying text.

12. See *id.*; see also *Vestron*, 839 F.2d at 1382 (noting difficulty courts experience when applying “sole question” rule to determine copyright jurisdiction). The problem looms largest where courts attempt to expose cases “couched” in terms of federal copyright but, in actuality, seek to vindicate rights created under state law. See *id.*

13. See *Schoenberg v. Shapolsky Pubs., Inc.*, 971 F.2d 926, 931 (2d Cir. 1992) [hereinafter *Schoenberg II*] (discussing complexity of copyright jurisdiction and varying views of federal courts because of such complexity).

*Inc.*¹⁴ Part II provides the salient facts and history of the *Scholastic* case.¹⁵ Part III contextualizes *Scholastic* in the greater historical framework, providing a detailed overview of federal courts' efforts to determine whether interdependent copyright and state contract claims "arise under" the Act for purposes of exercising federal subject matter jurisdiction.¹⁶ Part IV outlines the *Scholastic* court's reasoning in holding that it lacked federal subject matter jurisdiction over a purely state law contract claim.¹⁷ Part V critically examines the court's analysis and its resulting conclusions.¹⁸ Lastly, Part VI considers the potential impact of *Scholastic* on copyright subject matter jurisdiction as it specifically relates to claims raising both copyright infringement and state law contract issues.¹⁹

II. FACTS: *SCHOLASTIC ENTERTAINMENT, INC. v. FOX ENTERTAINMENT GROUP, INC.*²⁰

In 1995, Scholastic Entertainment, Inc. ("Scholastic") and Fox Entertainment Group, Inc. ("Fox") entered into a contract that included broadcasting the copyright-protected television series, *Goosebumps*.²¹ For several years, the parties performed their responsibilities under the contract without incident.²² In mid-1999, however, Scholastic discovered that the Fox Family Channel ("FFC"), not a party to the contract, was airing the *Goosebumps* series.²³ Upon

14. 336 F.3d 982 (9th Cir. 2003).

15. For a discussion of the relevant facts in *Scholastic*, see *infra* notes 21-35 and accompanying text.

16. For a discussion of the varying approaches followed by federal courts when confronted with the copyright/contract jurisdictional issue, see *infra* notes 36-156 and accompanying text.

17. For a narrative discussion of the Ninth Circuit's reasoning in *Scholastic*, see *infra* notes 157-80 and accompanying text.

18. For a critical discussion of the Ninth Circuit's reasoning in *Scholastic*, see *infra* notes 181-207 and accompanying text.

19. For a discussion on the possible impact of *Scholastic* on claims involving interdependent copyright and contract issues, see *infra* notes 208-18 and accompanying text.

20. 336 F.3d 982 (9th Cir. 2003).

21. See *id.* at 985 (discussing nature of contract between Scholastic and Fox). Scholastic, which is a producer and marketer of motion pictures, television, and video-programming based on children's literary works, agreed to produce a television series based on the children's book series, *Goosebumps*, and to license to Fox the rights to exhibit and distribute such shows. See *id.* at 983. Fox was to first air the initial exhibition of the shows on Fox Broadcasting and later distributed the series to different television outlets for a period of years. See *id.* The contract was due to expire in 2013. See *id.*

22. See *id.* at 983 (reviewing facts of case).

23. See *id.* at 984 (discussing dispute between Scholastic and Fox). The airings by FFC continued through August of 2001, during which time Scholastic received no compensation. See *id.* According to Scholastic, this unauthorized licensing frus-

verifying the extent of Fox's violation, Scholastic terminated its agreement in September 2001 and informed Fox that it planned to re-license the series to third parties.²⁴ Fox insisted Scholastic could not permissibly terminate the contract.²⁵

Shortly thereafter, Scholastic filed suit in the United States District Court for the Central District of California, claiming it had effectively terminated the agreement and that continued broadcast of the *Goosebumps* series by Fox and FFC qualified as copyright infringement.²⁶ If valid, termination of the contract would result in the reversion of all of Fox's ownership rights back to Scholastic, and continued use of the series would constitute copyright infringement.²⁷ In its counterclaim, Fox contended the contract remained in effect and requested the court to enjoin Scholastic from licensing the series to third parties.²⁸

The district court determined that the underlying dispute between Scholastic and Fox was contractual in nature.²⁹ The court therefore concluded that a state court could properly adjudicate the dispute.³⁰ Accordingly, the district court dismissed Scholastic's claims without prejudice and granted Fox's request for a preliminary injunction enjoining Scholastic from re-licensing the series.³¹ In agreeing with the district court's conclusion that the dispute involved solely contract law, Scholastic made no attempt to appeal the dismissal.³² Approximately four months later, the district court,

trated the entire purpose of the agreement, because Scholastic did not intend for the Fox airings alone to comprise Scholastic's total compensation for the production of the series. *See id.*

24. *See id.* (noting Scholastic's attempt to terminate its agreement with Fox).

25. *See Scholastic*, 336 F.3d at 984 (discussing Fox's argument against Scholastic's attempt to terminate agreement). Fox argued the contract remained in effect. *See id.* at 985. Therefore, pursuant to the agreement, Fox argued it alone had the right to exhibit and distribute the series until a determination regarding the status of the agreement was made. *See id.*

26. *See id.* at 984-85 (discussing Scholastic's breach of contract claim against Fox).

27. *See id.* at 985 (noting consequences of termination if successful).

28. *See id.* at 984 (discussing Fox's counterclaim).

29. *See id.* (discussing district court's reasoning).

30. *See Scholastic*, 336 F.3d at 984 (noting district court's inability to hear case for lack of subject matter jurisdiction). The court of appeals expressed concern over the state court's inability to properly exercise jurisdiction over Scholastic's request for a declaration that it had effectively terminated the agreement because it involved the Act. *See id.* at 984 n.1. The court ultimately found this conclusion erroneous. *See id.*

31. *See id.* at 984 (discussing district court's holding in case).

32. *See id.* (recalling facts of case). Furthermore, Scholastic stipulated that it would forego any attempt to re-license the *Goosebumps* series until a determination of ownership had been made. *See id.*

concluding that it lacked subject matter jurisdiction, dismissed Fox's counterclaims *sua sponte*.³³

On appeal, Fox asserted that because the district court could exercise federal subject matter jurisdiction, it erred in dismissing the counterclaims.³⁴ In determining whether it could properly exercise federal subject matter jurisdiction, the Ninth Circuit considered whether Fox's counterclaims "arose under" the Act or merely sought a determination of ownership.³⁵

III. BACKGROUND

A. The Power to Preside Over the Issue

Under Article III of the United States Constitution, federal courts have jurisdiction over "[c]ases, in Law and Equity, arising under [the] Constitution, the Laws of the United States, and Treaties made, or which shall be made."³⁶ The United States Code incorporates this provision in the Intellectual Property context.³⁷ Specifically, § 1338(a) provides that "[t]he district courts shall have original jurisdiction of any civil action arising under any Act of Congress relating to . . . copyrights Such jurisdiction shall be exclusive of the courts of the states in . . . copyright cases."³⁸

Since the enactment of § 1338(a), courts have struggled to fully understand Congress's intent in its "arising under" language.³⁹ In 1964, the United States Court of Appeals for the Second Circuit

33. See *id.* (noting district court's ultimate disposition in case). The court stated: "This is a contract case. It's a contract case simply and the State Court can decide it." *Id.* The district court's statement clearly demonstrates that lack of subject matter jurisdiction was the reason for its dismissal of Fox's counterclaims. See *id.*

34. See *id.* at 985 (noting Fox's appeal to Ninth Circuit).

35. For a discussion of the Ninth Circuit's analysis of whether Fox's counterclaims arose under the Act, see *infra* notes 157-80 and accompanying text.

36. U.S. CONST. art. III, § 2, cl. 1. See generally BLACK'S LAW DICTIONARY 857 (7th ed. 1999) (defining federal subject matter jurisdiction). Federal subject matter jurisdiction provides the "extent to which a court can rule on the conduct of persons or the status of things." *Id.* All federal courts have limited subject matter jurisdiction; they may hear only certain kinds of cases, as prescribed by the United States Constitution and federal statutes. See RICHARD D. FREER & WENDY COLLINS PERDUE, CIVIL PROCEDURE: CASES, MATERIALS, AND QUESTIONS 194 (3d ed. 2001) (mentioning role subject matter jurisdiction plays in limiting breadth of cases federal courts may hear).

37. See 28 U.S.C. § 1338(a) (2000).

38. *Id.*

39. See Mary P. Twitchell, *Characterizing Federal Claims: Preemption, Removal, and the Arising-Under Jurisdiction of the Federal Courts*, 54 GEO. WASH. L. REV. 812, 812 n.2 (1986) (noting lack of any clear definition as it relates to meaning of "arising under"). See generally FREER & PERDUE, *supra* note 36, at 222. The term "arising under" has caused problems in two areas:

in *T.B. Harms Co. v. Eliscu*⁴⁰ forwarded a watershed interpretation of the language. Specifically, the court abstracted a three-part test geared toward guiding future courts in their efforts to determine whether interdependent copyright and contract cases “arose under” the Act.⁴¹

B. 28 U.S.C. § 1338(a)

Section 1338 of the United States Code delineates the circumstances under which federal district courts have jurisdiction over federal intellectual property claims.⁴² Under this section, courts have exclusive jurisdiction in all civil actions “arising under” the Act.⁴³ However, § 1338(a) fails to specifically state *when* a claim “arises under” the Act.⁴⁴ This poses a significant problem for federal courts, because it is well settled that not every complaint involving the Act “arises under” that law for purposes of § 1338(a).⁴⁵ Furthermore, the mere existence of an underlying contract dispute in a suit relating to a copyright does not necessarily deprive a court

First is a requirement that the federal law be set forth as a claim, not as a defense. This raises the problem of the curiously named “well-pleaded complaint” rule. Second, and more challenging to understand, is an assessment of whether federal law is sufficiently central to the claim asserted in a well-pleaded complaint. With each of these restrictions, the federal courts have read the statutory language “arising under” more narrowly than the constitutional language.

Id. Because of its ambiguous nature, therefore, scholars and jurists have frequently discussed the tension surrounding the “arising under” language. See Fleischman, *supra* note 5, at 120.

40. 339 F.2d 823 (2d Cir. 1964).

41. For a discussion of the *T.B. Harms* decision and the test that it established, see *infra* notes 51-74 and accompanying text.

42. See 28 U.S.C. § 1338(a) (2000); see also PAUL GOLDSTEIN, COPYRIGHT, PATENT, TRADEMARK AND RELATED STATE DOCTRINES 195 (3d ed. 1993) [hereinafter GOLDSTEIN I] (discussing role § 1338 plays in copyright law). Section 1338 also defines the jurisdiction of the federal courts over certain state law claims related to federal Intellectual Property actions. See *id.*

43. See 28 U.S.C. § 1338(a).

44. See McCarthy, *supra* note 5, at 168 (emphasis added) (noting vagueness of § 1338(a)). On its face, § 1338(a) appears to require federal subject matter jurisdiction over all copyright actions. See *id.* at 169.

45. See *T.B. Harms Co. v. Eliscu*, 339 F.2d 823, 828 (2d Cir. 1964) (discussing limits of subject matter jurisdiction as it relates to Act); see also *Scandinavian Satellite Sys., AS v. Prime TV Ltd.*, 291 F.3d 839, 844 (D.C. Cir. 2002) (discussing limits of subject matter jurisdiction as it relates to Act). For example, a “suit on a contract does not ‘arise under’ the copyright laws even though a copyright may have been the subject matter of the contract.” *Id.* See, e.g., *Bassett v. Mashantucket Pequot Tribe*, 204 F.3d 343, 347 (2d Cir. 2000) (noting difficulties in distinguishing which cases “arise[] under” the Act).

of jurisdiction.⁴⁶ Because of the complexity in determining exactly when a claim “arises under” the Act, federal courts have experienced significant difficulty in their attempts to properly exercise federal subject matter jurisdiction under § 1338(a).⁴⁷

C. Post-Enaction § 1338(a) Interpretation

Since Congress enacted § 1338(a), courts have sought to define the meaning of “arising under” in federal copyright law.⁴⁸ The Second Circuit provided the first intensive examination of the matter in *T.B. Harms*.⁴⁹ The *T.B. Harms* court conceived of a three-part test, which became a paradigm for future determinations of the types of actions that “arise under” the Act.⁵⁰

1. *T.B. Harms: The Seminole Interpretation*

In *T.B. Harms*, the plaintiff brought an action against the defendant, Edward Eliscu, in a United States district court, seeking declaratory and equitable relief.⁵¹ *T.B. Harms* claimed that under its contract with Eliscu, Harms acquired ownership of renewal copy-

46. See *Bassett*, 204 F.3d at 355 (discussing instance where federal courts may properly exercise subject matter jurisdiction). For a discussion of the *Bassett* decision, see *infra* notes 114-23 and accompanying text.

47. See Mark R. Kravitz, *Developments in the Second Circuit 1999-2000*, 33 CONN. L. REV. 945, 1021 (2001) (noting confusing nature of § 1338(a)). “Typically, such claims arise where the defendant has a license to exploit the plaintiff’s copyright, but is alleged to have forfeited the license by breaching the terms of the parties’ agreement, and therefore to have infringed the plaintiff’s copyright through further exploitation.” *Id.*; see also NIMMER, *supra* note 7, § 12.01[A], at 12-13. State common law governs contract-based claims and therefore state courts hear such claims, whereas federal courts hear copyright actions. See *id.* at 13-14; see also *Topolos v. Caldewey*, 698 F.2d 991, 993 (9th Cir. 1983) (noting courts experience difficulty where plaintiff’s claims include copyright allegations and preliminary legal issues of contract under state law); *Franklin v. Cannon Films, Inc.*, 654 F. Supp. 133, 134 (C.D. Cal. 1987) (noting copyright issue must constitute “gist,” “essence,” or “principal issue,” not claim for “naked declaration of ownership”).

48. For a discussion of the attempts federal courts have made in defining the meaning of “arising under,” see *infra* notes 75-156.

49. See *T.B. Harms*, 339 F.2d at 823 (discussing Second Circuit’s attempt to clarify meaning of “arising under” as it relates to federal copyright law); see also McCarthy, *supra* note 5, at 168-69 (same).

50. See Wanat, *supra* note 5, at 372 (recognizing *T.B. Harms* as leading case in determining whether claims “arise under” the Act); see also McCarthy, *supra* note 5, at 166 (recognizing *T.B. Harms* as leading case regarding question of when claims “arise under” the Act). The three-part test provides that an action “arises under” the Act, if and only if: (1) the complaint seeks a remedy expressly granted by the Act; (2) the complaint requires construction of the Act; or (3) federal principles should control the disposition of the claim. See *T.B. Harms*, 339 F.2d at 828.

51. See *T.B. Harms*, 339 F.2d at 824-25 (discussing dispute between plaintiff and defendant).

rights in songs that Eliscu co-authored.⁵² Eliscu denied transferring ownership to Harms by contract.⁵³

Holding that it could not properly exercise subject matter jurisdiction under § 1338(a), the district court dismissed Harms's complaint.⁵⁴ In reaching its conclusion, the court based its lack of jurisdiction on Harms's failure to allege "any act or threat of copyright infringement."⁵⁵

On Harms's appeal, the Second Circuit affirmed the district court's holding that no infringement existed.⁵⁶ However, the court noted § 1338(a) failed to mention infringement, and thereby concluded "the undoubted truth that a claim for infringement 'arises under' the Copyright Act does not establish that nothing else can."⁵⁷ Addressing additional theories under which the plaintiff could possibly gain access to federal court, the court analyzed earlier Supreme Court definitions of "arising under."⁵⁸ The Second Circuit noted that in *Osborn v. Bank of the United States*,⁵⁹ the United States Supreme Court applied an "ingredient theory" and construed the "arising under" language in the context of Article III of the Constitution.⁶⁰ The *Osborn* Court determined federal subject

52. *See id.* at 824 (discussing facts of case). The litigation in *T.B. Harms* concerned four copyrighted songs composed by Vincent Youmans for use in the movie, "Flying Down to Rio." *See id.* Youmans entered into a contract with RKO Studios requiring him to assign certain rights, including recordation, to RKO during the existence of the copyrights and any renewals. *See id.* In return, RKO agreed to hire a lyric writer and obtain the publishing rights to the lyrics. *See id.* Plaintiff, T.B. Harms Co., acquired these rights from Youmans. *See id.* RKO hired defendant, Edward Eliscu, as one of the lyric writers. *See id.* Upon completion of this task, Youmans retained the authority to assign both the performing and publishing rights to the music and lyrics. *See id.*

53. *See id.* (discussing facts of case). The principal dispute in the case rested upon whether or not Eliscu ever assigned his rights to the copyrights and renewals to T.B. Harms. *See id.*

54. *See id.* at 825 (discussing district court's reasoning and ultimate disposition in case).

55. *See id.* (reviewing district court's reasoning). The court concluded that no use or threatened use of the copyrights existed and the parties sought only to establish their ownership of the copyrights. *See id.* Accordingly, the Act was not at issue and the court could not properly exercise federal subject matter jurisdiction to rule on the contractual dispute. *See id.*

56. *See T.B. Harms*, 339 F.2d at 825 (noting court of appeal's affirmation of district court's holding).

57. *Id.* The court noted the phrasing of § 1338(a) would not compel the conclusion that an action to determine ownership of a copyright does not fall under the Act. *See id.*

58. *See id.* at 825-26 (noting court's analysis of past Supreme Court decisions to gain more in-depth understanding of "arising under").

59. 22 U.S. 738 (1824).

60. *See T.B. Harms*, 339 F.2d at 825 (noting Second Circuit's reference to *Osborn* for guidance). In *Osborn*, Ohio imposed a tax on a nationally chartered federal

matter jurisdiction was proper in any case where federal law comprised a necessary ingredient of the claim.⁶¹ The *T.B. Harms* court concluded, however, that pursuant to a subsequent Supreme Court decision in *New Marshall Fire Engine Co. v. Marshall Engine Co.*,⁶² the ingredient theory could not apply.⁶³

While the *T.B. Harms* court discarded the ingredient theory as inapplicable to its analysis, it found some merit in the "creation test" enunciated in *American Well Works Co. v. Layne & Bowler Co.*,⁶⁴ which held, "[a] suit arises under the law that created the cause of action."⁶⁵ Because federal copyright laws do not create a cause of

bank. See *Osborn*, 22 U.S. at 740-41. The bank, claiming the tax was unconstitutional, sued to enjoin the state auditor from collecting it. See *id.* The bank's charter stated that the bank had the right "to sue and be sued" in every United States circuit court. See *id.* at 817. The Court interpreted this language as a grant of federal subject matter jurisdiction because federal subject matter jurisdiction always exists when a party calls the constitutionality of a statute into question. See *id.* at 819 (citation omitted). The Court further held that federal subject matter jurisdiction would exist in any case involving the bank. See *id.* at 822-27.

61. See *Osborn*, 22 U.S. at 824-25 (noting federal question jurisdiction depended on whether federal question may theoretically arise as ingredient in claim). The Court reasoned: "Whether [the federal ingredient is] in fact relied on or not, in the defence, it is still part of the cause, and may be relied on." *Id.*

62. 223 U.S. 473 (1912). In *New Marshall Engine Co.*, a case involving the question of title to a patent, the Court stated: "Federal courts have exclusive jurisdiction of all cases arising under the patent laws, but not of all questions in which a patent may be the subject-matter of the controversy. For courts of a State may . . . construe and enforce contracts relating to patents." *Id.* at 478.

63. See *T.B. Harms*, 339 F.2d at 828 (noting Court perceived as having adopted significantly narrower definition of "arising under"); see also McCarthy, *supra* note 5, at 172-73 (acknowledging perception that Court had adopted significantly narrower definition of "arising under"). The *T.B. Harms* court analyzed the Supreme Court precedent set forth in *New Marshall Engine Co.*, concluding that the federal grant of a copyright does not transform a contractual dispute into a federal question merely because of the contract's copyright subject matter. See *id.* at 172. Furthermore, expansion of federal subject matter jurisdiction would unquestionably deny state courts jurisdiction over state matters, which mattered little to the nation at large. See *id.* at 173; see also *T.B. Harms*, 339 F.2d at 826 (noting cases dealing with federal subject matter jurisdiction over copyrights have traditionally taken "conservative line").

64. 241 U.S. 257 (1916); see also *Franchise Tax Bd. v. Constr. Laborers Vacation Trust*, 463 U.S. 1, 8-9 (1983) (overruling *Am. Well Works Co. v. Layne & Bowler Co.*).

65. *Am. Well Works*, 241 U.S. at 260 (noting Court's holding in case). Applying this rule to the plaintiff's suit, the Court determined the suit to constitute one for damages to the plaintiff's business, which resulted from the defendants' threatened suits under the patent. See *id.* at 259. In its determination that the defendants' actions "wrong[ed]" the plaintiff because they caused injury to the plaintiff's business, the majority depended "upon the law of the State where the act is done, not upon the patent law" *Id.* at 260. "[T]herefore[,] the suit a[rose] under the law of the State" to the exclusion of the patent laws. *Id.* Accordingly, the United States district court lacked proper jurisdiction to hear the case. See *id.*

action to fix the locus of ownership, the *T.B. Harms* court also held the creation test inapplicable.⁶⁶

Nevertheless, the *T.B. Harms* court noted a cause of action brought to fix copyright ownership could “arise under” federal law if the complaint included a need to determine the meaning or application of a federal law.⁶⁷ Citing *De Sylva v. Ballentine*,⁶⁸ the Court explored a new doctrine that permitted federal subject matter jurisdiction over a state-created claim if a federal interest dominated, even in the absence of an express statute.⁶⁹ This doctrine supports the idea that “if this ‘federal common law’ governed some disputed aspect of a claim to ownership of a copyright or for the enforcement of a license, federal subject matter jurisdiction might follow.”⁷⁰

The court ultimately established that an action “arises under” the Act if, and only if: (1) the complaint seeks a remedy expressly granted by the Act;⁷¹ (2) the complaint requires construction of the

66. See *T.B. Harms*, 339 F.2d at 826-27 (holding test established in *American Well Works* as too narrow); see also *Effects Assoc., Inc. v. Cohen*, 817 F.2d 72 (9th Cir. 1987).

67. See *T.B. Harms*, 339 F.2d at 827 (discussing aspect of court’s reasoning in case). The court determined that appropriate pleadings of a pivotal question of federal law could suffice to give federal subject matter jurisdiction even for a state-created claim. See *id.*

68. 351 U.S. 570 (1956). The *De Sylva* Court found federal subject matter jurisdiction over a claim created by state law because two significant questions existed concerning the Act’s construction. See *id.* at 572. The *T.B. Harms* court noted *De Sylva* also applied the principle that a state-created claim could “arise under” a federal law if the complaint disclosed the necessity for determining the meaning of such a law. See *T.B. Harms*, 339 F.2d at 827.

69. See *T.B. Harms*, 339 F.2d at 828 (reviewing aspect of court’s rationale).

70. *Id.* (noting appropriate pleading as to pivotal questions of federal law may suffice to give federal subject matter jurisdiction, even for “state-created” claims).

71. See *id.* at 828 (discussing aspect of court’s holding in case); see also McCarthy, *supra* note 5, at 185. The *T.B. Harms* court first found infringement claims to “arise under” the Act. See *id.* As the primary wrong addressed directly by the Act, infringement unquestionably belongs in federal court. See *id.* Consequently, if a complaint includes only the elements required for infringement action, and fails to contain any claims based on state grounds, § 1338(a) will grant federal subject matter jurisdiction. See *id.* However, federal courts recognize other actions, aside from infringement, over which they may claim jurisdiction. See *id.*; see also *Bassett v. Mashantucket Pequot Tribe*, 204 F.3d 343, 349 (2d Cir. 2000). The analysis under *T.B. Harms* turns on what the plaintiff alleges on the face of the complaint. See generally 2 PAUL GOLDSTEIN, COPYRIGHT: PRINCIPLES, LAW AND PRACTICE § 13.2.1, § 13.2.1.1(a) (1989) [hereinafter GOLDSTEIN II].

But see Amy B. Cohen, “*Arising Under*” Jurisdiction and the Copyright Laws, 44 HASTINGS L.J. 337, 373 (1993). By requiring federal courts to accept all cases in which a complaint seeks a remedy provided by the Act or raises a claim requiring interpretation of the Act, it might “open the floodgates,” thereby drowning federal courts in the “litigation of cases that are at heart contract disputes.” *Id.*

Act;⁷² or (3) federal principles should control the disposition of the claim.⁷³ Since the plaintiff's claim failed to fulfill any of these three categories outlined by the court, the court of appeals dismissed it for lack of jurisdiction.⁷⁴

2. *Confusion in the Wake of T.B. Harms: Three Emerging Interpretations*

In the forty years since *T.B. Harms*, courts have embraced three different interpretations of the "arising under" language: (1) the "essence of the claim" standard,⁷⁵ (2) the "well-pleaded complaint" standard,⁷⁶ and (3) the "*Schoenberg* test."⁷⁷

a. The "Essence of the Claim" Standard

Federal courts following this standard base their jurisdictional decisions on the "essence of the claim."⁷⁸ All of the cases using the

72. See *T.B. Harms*, 339 F.2d. at 828 (discussing aspect of court's holding in case); see also McCarthy, *supra* note 5, at 185-86. According to *T.B. Harms*, the second category of cases "arising under" the Act includes those requiring construction of the Act. See *id.* Even if a dispute is contractual in nature and, therefore, state controlled, interpretations of federal statutes are a federal concern and subject to federal subject matter jurisdiction. See *id.*; see also *Foxrun Workshop, Ltd. v. Klone Mfg., Inc.*, 686 F. Supp. 86 (S.D.N.Y. 1988). For a discussion of *Foxrun*, see *infra* notes 106-10 and accompanying text.

73. See *T.B. Harms*, 339 F.2d at 827-28 (discussing aspect of court's holding in case); see also McCarthy, *supra* note 5, at 186. The third category of actions "arising under" the Act consists of actions involving distinctive federal policies. See generally GOLDSTEIN II, *supra* note 71, § 13.2.1.1(c). Federal courts will exercise subject matter jurisdiction so long as the claim meets one of these three requirements. See *Bassett*, 204 F.3d at 349.

74. See *T.B. Harms*, 339 F.2d at 827-28 (discussing court's final disposition in case). The Second Circuit ultimately found the claim did not satisfy the test and the district court acted properly in dismissing Harms's claims. See *id.* The court noted that "[t]he relevant statutes create no explicit right of action to enforce or rescind assignments of copyrights, nor does any copyright statute specify a cause of action to fix the locus of ownership." *Id.* at 827.

75. For a discussion of the "essence of the claim" standard, see *infra* notes 78-98 and accompanying text.

76. For a discussion of the "well-pleaded complaint" standard, see *infra* notes 99-128 and accompanying text.

77. For a discussion of the *Schoenberg* standard, see *infra* notes 129-56 and accompanying text. While the three categories delineated in *T.B. Harms* represent the area of settled and undisputed copyright jurisdictional law where cases will always "arise under" the Act, there are also those cases that will never "arise under" the Act. See McCarthy, *supra* note 5, at 186. Between these two bright-line categories lies a gray area causing significant confusion among courts in their ability to determine whether alleged claims constitute infringement or breach of contract actions. See *id.* at 186-87.

78. See McCarthy, *supra* note 5, at 176-77 (explaining "essence" standard). This standard is also known as the "essence" or "essence of the dispute." See *id.* See generally *Royal v. Leading Edge Prods., Inc.*, 833 F.2d 1 (1st Cir. 1987); Topolos v.

“essence” standard build from *T.B. Harms*’s policy that state courts may exercise jurisdiction over claims of minimal federal significance.⁷⁹ In an effort to avoid expanding the meaning of § 1338(a), the decisions in this line of cases suggest taking a conservative approach toward cases involving statutory jurisdiction over copyrights.⁸⁰ This standard derives from two main sources of support. Courts using this standard follow the proposition from the *T.B. Harms* district court opinion that the complaint’s formal allegations must give way to the substance of the claim.⁸¹ These courts also build upon the *T.B. Harms* view that courts should narrowly read provisions conferring federal subject matter jurisdiction so as not to deprive state courts of jurisdiction over matters of minor federal significance.⁸²

The first case that enunciated this interpretation of *T.B. Harms* was *Elan Associates, Ltd. v. Quackenbush Music, Ltd.*⁸³ Looking be-

Caldewey, 698 F.2d 991, 992 (9th Cir. 1983) (holding federal subject matter jurisdiction proper because copyright infringement constituted “essence” of complaint); *Felix Cinematografica, S.R.L. v. Penthouse Int’l, Ltd.*, 671 F. Supp. 313, 315 (S.D.N.Y. 1987) (dismissing copyright claim for lack of subject matter jurisdiction because court concluded “essence of claim” was contractual); *Berger v. Simon & Schuster*, 631 F. Supp. 915, 917 (S.D.N.Y. 1986) (holding court lacked federal subject matter jurisdiction because contract dispute actually created “essence” of infringement claim); *Keith v. Schruggs*, 507 F. Supp. 968, 971 (S.D.N.Y. 1981) (holding court lacked federal subject matter jurisdiction because contract dispute actually created “essence” of infringement claim); *Stepdesign, Inc. v. Research Media, Inc.*, 442 F. Supp. 32, 34 (S.D.N.Y. 1977) (ruling court lacked federal subject matter jurisdiction as contract dispute created “essence” of infringement claim); *Elan Assocs., Ltd. v. Quackenbush Music, Ltd.*, 339 F. Supp. 461, 462 (S.D.N.Y. 1972) (dismissing claim because ownership dispute formed “essence” of complaint).

79. See McCarthy, *supra* note 5, at 190 (explaining rationale for use of “essence” standard); see also *T.B. Harms Co. v. Eliscu*, 339 F.2d 823, 828 (2d Cir. 1964). The court precisely stated, “[t]he cases dealing with statutory jurisdiction over . . . copyrights have taken . . . [a] conservative line” *Id.* at 826. “[E]xpansion would entail depriving the state courts of any jurisdiction over matters having so little federal significance.” *Id.*

80. See McCarthy, *supra* note 5, at 190. In an attempt to further the policy of avoiding expansion of the statute, these cases “stand for the idea that a plaintiff cannot manipulate federal subject matter jurisdiction, when none is appropriate, simply by artfully drafting the complaint.” *Id.*

81. See Wanat, *supra* note 5, at 375 (explaining “essence” standard). Put more clearly, several federal courts have concluded that a complaint stating a cause of action for copyright infringement and seeking remedies under the Copyright Act may nevertheless fail to come within the jurisdiction of the federal courts under § 1338(a). See *id.*

82. See McCarthy, *supra* note 5, at 180 (noting courts’ use of *T.B. Harms* decision for guidance); see also *T.B. Harms*, 339 F.2d at 826.

83. 339 F. Supp. 461 (S.D.N.Y. 1972). This case involved the execution of a contract, which provided that the plaintiff would enjoy the exclusive right to publish and obtain copyrights on certain music by Carly Simon. See *id.* The defendant, however, continued to obtain copyrights of Simon’s compositions. See *id.* The

yond the plain language of the complaint, the *Elan* court interpreted the *T.B. Harms* test to hold it lacked subject matter jurisdiction because the case “essentially” involved a dispute as to the ownership of the copyright.⁸⁴

Although the court in *Topolos v. Caldewey*⁸⁵ used different language in its reasoning, it adopted the “essence” standard in principle.⁸⁶ On appeal, the Ninth Circuit held that actions “arise under” the Act when a plaintiff seeks a remedy expressly granted by the Act or asserts a claim requiring construction of the Act.⁸⁷ After searching for the “principal issue,” the Ninth Circuit concluded the district court incorrectly dismissed the action.⁸⁸

The district court in *Stepdesign, Inc. v. Research Media, Inc.*⁸⁹ also adopted the “essence” standard. The court reasoned that questions of contract ownership did not necessarily qualify as questions for the federal courts.⁹⁰ After noting the absence of an underlying

plaintiff sued in New York State court for both breach of contract and copyright infringement. *See id.* at 461-62.

84. *See id.* at 462 (discussing court’s reasoning in case). The court found that the resolution of the dispute depended ultimately upon the validity of the plaintiff’s exclusive publishing agreement with Simon. *See id.* The court further reasoned that, although the action was couched in terms of infringement, in reality the suit desired to establish valid title by seeking to enforce a contract between an author and a publisher. *See id.* Accordingly, the case did not “arise under” the copyright laws so as to invoke federal subject matter jurisdiction. *See id.*

85. 698 F.2d 991 (9th Cir. 1983). In this case, Topolos and defendant, Vintage Image, entered into an exclusive publishing contract regarding a book. *See id.* at 992. The contract required Vintage to pay royalties to Topolos in consideration for receiving all rights under the copyright. *See id.* Vintage thereby obtained copyrights in its own name in accordance with the agreement. *See id.* A second book published by Vintage listed a co-defendant, Hinkle, as the author and copyright owner. *See id.* Topolos alleged Hinkle’s book infringed upon his beneficial copyright ownership of the original book. *See id.*

86. *See* McCarthy, *supra* note 5, at 182 (reviewing *Topolos* court’s reasoning in case). In deciding whether a case “arose under” the Act, the district court noted the importance of focusing on the “principal issue” for resolution. *See id.*

87. *See Topolos*, 698 F.2d at 993 (discussing court’s rationale). The court found difficulty in cases where a plaintiff claims infringement under the Act and raises preliminary state contract issues. *See id.* The court ultimately agreed with the district court’s holding that the “principal” issue of the case, or the “essence” of the plaintiff’s claim, should determine whether federal subject matter jurisdiction existed. *See* McCarthy, *supra* note 5, at 183.

88. *See Topolos*, 698 F.2d at 994 (discussing court’s holding in case). The Ninth Circuit determined the ownership issue constituted only “a threshold issue and not the principal one.” *See* McCarthy, *supra* note 5, at 183.

89. 442 F. Supp. 32 (S.D.N.Y. 1977). In *Stepdesign*, the plaintiff sought a declaratory order that certain copyrights had reverted to him upon breach of contract and, therefore, the suit was merely one to determine ownership of the copyright. *See id.* at 33.

90. *See id.* at 33 (citing *T.B. Harms Co. v. Eliscu*, 339 F.2d 823, 826 (2d Cir. 1964)); *see also* *Wells v. Universal Pictures Co.*, 166 F.2d 690, 691 (2d Cir. 1948) (stating patent or copyright only incidentally involved does not invoke federal sub-

claim for infringement, the court held it could not properly exercise federal jurisdiction.⁹¹

Although the “essence” standard possesses several strengths, as previously noted, it also suffers from various weaknesses.⁹² For instance, the determination of state or federal subject matter jurisdiction, even in the clearest of situations, may often turn on the issue of the plaintiff’s “primary and controlling” purpose.⁹³ This differs from resting the primary focus on the parties’ intent, as practiced in traditional contract law, because jurisdiction instead hinges on what the judge believes the contract symbolizes.⁹⁴ As a result, the judge becomes one who not only judges, but also one who determines what is to be judged.⁹⁵

Furthermore, this standard blurs, if not ignores, the distinction between § 1338(a) claims and the question of deciding the copyright claim on its merits.⁹⁶ The result becomes a dismissal of the plaintiff’s action on the jurisdictional grounds that the copyright claim is not the “essence of the claim,” which leaves open the question of whether a valid copyright claim exists at all.⁹⁷ No state court can resolve this question.⁹⁸

ject matter jurisdiction); *Muse v. Mellin*, 212 F. Supp. 315 (S.D.N.Y. 1964), *aff’d*, 339 F.2d 888 (2d Cir. 1964) (noting mere mention of term “copyright” is not compelling enough to invoke federal subject matter jurisdiction).

91. *See Stepdesign, Inc.*, 442 F. Supp. at 33 (citing *T.B. Harms*, 339 F.2d at 825). The court concluded that because the complaint was focused solely on the contractual breaches, “any finding of infringement would be clearly incidental to the main purpose of plaintiff’s suit” *Id.* at 34.

92. *See Fleischman, supra* note 5, at 129-30 (discussing weaknesses of “essence” standard).

93. *See id.* (mentioning weakness found in “essence” standard); *see also* NIMMER, *supra* note 7, § 12.01[A], at 12-14.

94. *See Fleischman, supra* note 5, at 129.

95. *See id.* at 129-30. This elevation of the court’s role is both illegal and undesirable. *See id.* at n.65. In *Arthur Young & Co. v. City of Richmond*, the Fourth Circuit held “that the district court’s search for the ‘principal and controlling issue’ in the case exceeded the limited factual inquiry necessary” for the dismissal motion. 895 F.2d 967, 969 (4th Cir. 1990).

96. *See Wanat, supra* note 5, at 395 (noting “essence” standard might benefit from a “sharper distinction” between the § 1338(a) jurisdictional issue and a merits determination).

97. *See id.* at 394-95 (explaining “essence” standard). Rather, courts following the “essence” standard would benefit from considering whether the decision they make is one on the merits versus one merely affecting the proper forum for the plaintiff’s action. *See id.* at 395.

98. *See id.* (noting limitation of state courts). The federal court’s jurisdiction over the action “arising under” the Act is “exclusive.” 28 U.S.C. § 1338(a) (2000).

b. The "Well-Pleaded Complaint" Standard

Federal courts following this standard base their jurisdictional decisions on how the plaintiff pleads his case in the complaint.⁹⁹ In other words, whatever the plaintiff pleads is what he or she means, and the court should not engage in any interpretation of the complaint.¹⁰⁰ Courts using the "well-pleaded complaint" standard focus on two main sections of the *T.B. Harms* decision for support.¹⁰¹ First, under *T.B. Harms*, federal subject matter jurisdiction exists wherever "the complaint is for a remedy expressly granted by the Act."¹⁰² Second, according to the Second Circuit, federal subject matter jurisdiction exists when the plaintiff directs his complaint against an infringing use and refers to the license only incidentally.¹⁰³ Therefore, courts may not exercise federal subject matter jurisdiction if the plaintiff sues to set the license aside and only incidentally seeks recovery for the infringing use.¹⁰⁴ Courts apply these two portions of *T.B. Harms* to establish the basis for the "well-pleaded complaint" approach.¹⁰⁵

99. See McCarthy, *supra* note 5, at 175 (discussing "well-pleaded complaint" standard). This standard is also known as the "face of the complaint" rule or "pleadings" test. See *id.*

100. See *id.* (explaining "well-pleaded complaint" standard). See generally *Vestron v. Home Box Office, Inc.*, 839 F.2d 1380 (9th Cir. 1988). The plaintiff's complaint alleged ownership of the exclusive rights to reproduce and distribute two motion pictures in the form of videocassettes. See *id.* at 1380-81. The plaintiff's complaint also alleged that the defendant's acts constituted copyright infringement and sought relief under the Act. See *id.* at 1382. The court of appeals exercised jurisdiction, holding that whether the plaintiff's case "arose under" the Act depended upon whether the court determined that the complaint stated a "bona fide infringement claim." *Id.* at 1381.

101. See generally *Arthur Young & Co. v. City of Richmond*, 895 F.2d 967, 969 (4th Cir. 1990) (noting Fourth Circuit's rejection of "essence" standard and holding subject matter jurisdiction exists when complaint asks for remedy provided in Act); see also *Vestron, Inc.*, 839 F.2d at 1381-82 (holding court could exercise subject matter jurisdiction because complaint sought remedy expressly granted by federal copyright law); *Foxrun Workshop, Ltd. v. Klone Mfg., Inc.*, 686 F. Supp. 86, 89 (S.D.N.Y. 1988) (rejecting "essence" standard in determining whether court could exercise federal subject matter jurisdiction to hear suit brought under Lanham Act for trademark infringement).

102. See McCarthy, *supra* note 5, at 175 (emphasis added) (noting courts adopting this approach focus their analysis on first part of *T.B. Harms* test).

103. See *T.B. Harms Co. v. Eliscu*, 339 F.2d 823, 823 (2d Cir. 1964) (discussing jurisdictional aspect of court's holding).

104. See *id.* (discussing limitation of federal courts to hear certain claims); McCarthy, *supra* note 5, at 175. Courts apply this jurisdictional rule to a situation not addressed in *T.B. Harms* — when a defendant licensed to use a copyright on specific terms is alleged to have relinquished the grant through breach of contract. See McCarthy, *supra* note 5, at 175 n.89.

105. See McCarthy, *supra* note 5, at 175 (noting courts' use of *T.B. Harms* decision for guidance when applying the "well-pleaded complaint" standard). See, e.g.,

The decision in *Foxrun Workshop, Ltd. v. Klone Mfg., Inc.*¹⁰⁶ best establishes the “well-pleaded complaint” standard.¹⁰⁷ In that case, the district court noted that even when the “essence” of a complaint is contractual in nature, a plaintiff’s complaint might continue to raise federal statutory questions necessitating determination by a federal court.¹⁰⁸ Therefore, the court applied the “well-pleaded complaint” standard and concluded that pleadings must be directed against the offending use, the license must be referred to only by way of anticipatory replication, and a claim involving a trademark should not necessarily invoke federal subject matter jurisdiction.¹⁰⁹ The court ultimately concluded that, because Foxrun’s complaint alleged ownership of both a trademark and infringing use and sought remedies expressly granted by the Lanham Act, the court could properly exercise federal subject matter jurisdiction.¹¹⁰

The case of *Arthur Young & Co. v. City of Richmond*¹¹¹ likewise characterized the “well-pleaded complaint” standard as viewed by

Vestron, 839 F.2d at 1380. For further discussion of the facts in *Vestron*, see *supra* note 100.

106. 686 F. Supp. 86 (S.D.N.Y. 1988). The court applied the “well-pleaded complaint” standard to support the holding that a federal court could hear a trademark infringement case based upon failure to perform obligations under a trademark license agreement. See *id.* at 89.

107. See McCarthy, *supra* note 5, at 175 (noting importance of *Foxrun* case as it relates to application of “well-pleaded complaint” standard).

108. See *id.* at 175-76 (discussing district court’s reasoning in case). Although *Foxrun* represents a trademark case, the jurisdictional issue bears similarity to a copyright claim because both are matters of federal subject matter jurisdiction under § 1338(a). See 28 U.S.C. § 1338(a) (2000).

109. See McCarthy, *supra* note 5, at 176-77 (noting district court’s use of “well-pleaded complaint” standard in its analysis).

110. See *Foxrun Workshop, Ltd.*, 686 F. Supp. at 89, 91 (discussing district court’s holding in case). The federal trademark laws are also known as the “Lanham Act.” See generally 15 U.S.C. §§ 1051-1127 (2000). In dicta, the court noted that the “essence” standard went against public policy. See *Foxrun Workshop, Ltd.*, 686 F. Supp. at 90. Furthermore, the “essence” standard left jurisdiction open to the question as the parties conducted discovery and refined the issues in the case. See *id.* Therefore, the court favored the “well-pleaded complaint” standard, since it permitted the determination of jurisdiction as a preliminary matter and thereby created predictability and uniformity. See *id.*; McCarthy, *supra* note 5, at 177 n.108.

111. 895 F.2d 967 (4th Cir. 1990). The plaintiff, Arthur Young & Co., entered into a contract with the City of Richmond. See *id.* at 968. Arthur Young & Co. contracted to design and install an on-line computer customer information and billing system. See *id.* When Arthur Young & Co. experienced difficulties with the program, the city complained, claiming that Arthur Young & Co. failed to meet scheduled deadlines in the contract. See *id.* In turn, Arthur Young & Co. claimed it deserved additional compensation for “out-of-scope” work. See *id.* Eventually, the city locked Arthur Young & Co. out of the work-place. See *id.* Arthur Young & Co. filed suit in state court for breach of contract in response to this lockout. See

the Fourth Circuit.¹¹² Rather than searching the complaint for its “primary and controlling purpose,” the court held that subject matter jurisdiction in a copyright infringement suit turned on whether the complaint requested a remedy provided for by the Act.¹¹³

Most recently, the decision by the Second Circuit in *Bassett v. Mashantucket Pequot Tribe*¹¹⁴ adopted the “well-pleaded complaint” standard.¹¹⁵ The *Bassett* decision came in response to the three-prong test developed by the court in *Schoenberg v. Shapolsky Publishers, Inc.*¹¹⁶ The *Bassett* court rejected the *Schoenberg* test, characterizing it as “unworkable” for two reasons.¹¹⁷ First, the court explained that depriving individuals of a federal forum would deny them the benefit of copyright remedies because their copyright claims fol-

id. The plaintiff then obtained and registered a copyright for the program it installed and filed an infringement suit in federal court. *See id.*

112. *See* McCarthy, *supra* note 5, at 177. In that case, the district court held copyright infringement did not comprise the “principal and controlling issue of the case.” *See Arthur Young*, 895 F.2d at 969. The district court viewed the infringement action as essentially a contract dispute governed by state law. *See id.* at 993-94.

113. *See* Topolos v. Caldewey, 698 F.2d 991, 993 (9th Cir. 1983) (discussing court’s holding in case). The court specifically rejected the “essence” standard in its holding. *See id.*

114. 204 F.3d 343 (2d Cir. 2000). The *Bassett* court not only reaffirmed the court’s decision in *T.B. Harms* but also attempted to clarify its “nebulous” reasoning. *See* Neil Weinstock Netanel, *From the Dead Sea Scrolls to the Digital Millennium: Recent Developments in Copyright Law*, 9 TEX. INTELL. PROP. L.J. 19, 48-49 (2000).

115. For further discussion of the *Bassett* decision, see *infra* notes 117-23 and accompanying text.

116. 971 F.2d 926 (2d Cir. 1992). For further discussion of the *Schoenberg II* decision and the *Schoenberg* test, see *infra* notes 129-56 and accompanying text.

117. *See Bassett*, 204 F.3d at 352 (noting different approach taken by *Bassett* court). The *Bassett* court described the *Schoenberg* court’s approach to the jurisdictional issue as dictum and “a digression that had no bearing on the resolution of any issue decided by the appeal.” *Id.* at 351 n.6. The court further explained that “[t]he test had been severely criticized in the copyright scholarship.” *Id.* at 353 n.8 (citing 2 WILLIAM F. PATRY, COPYRIGHT LAW AND PRACTICE 1073 (1994)); *see also* Parachute Press, Inc. v. Scholastic, Inc., No. 99-7235, 2000 U.S. App. LEXIS 21398, at *1 (2d Cir. Aug. 22, 2000); Cohen, *supra* note 71, at 363, 365, 374). *Bassett* contrasted the *T.B. Harms* and *Schoenberg* tests — the *T.B. Harms* test differed significantly from the essence of the dispute or merely incidental test used in *Schoenberg II*. *See id.* “The analysis in *T.B. Harms* turns on what is alleged on the face of the complaint, while the essence-of-the-dispute or merely incidental test looks rather at what defense will be proffered.” *Id.* (citing *Bassett*, 204 F.3d at 349).

lowed the contract dispute.¹¹⁸ Second, the court characterized the *Schoenberg* test as “vague.”¹¹⁹

While the *Bassett* decision reaffirmed *T.B. Harms* and the principles underlying the rule in that case, it attempted to clarify some

118. See *Bassett*, 204 F.3d at 352 (discussing court’s reasoning in case); Wanat, *supra* note 5, at 387. Infringement is the most important action the Act affords the copyright owner against others. See 17 U.S.C. § 504(a) (2000). Because the federal court is the exclusive forum before which this action may be adjudicated, a finding that the court lacks jurisdiction prevents adjudication in any other judicial forum. See *Bassett*, 204 F.3d at 352. As a result, the *Bassett* court opined that “[s]uch denial of copyright remedies undermines the Act’s capacity to protect copyright interests.” *Id.*

119. See *Bassett*, 204 F.3d at 353 (discussing court’s reasoning in case); Wanat, *supra* note 5, at 387-88 (pointing out ambiguity of *Schoenberg* test). The *Bassett* court noted the general difficulty in applying the *Schoenberg* test for several reasons. See *id.* First, a plaintiff could not predict whether the federal court could exercise jurisdiction over the action. See *id.* In other words, because the court in *Schoenberg II* based its analysis more on the defense, rather than on the demands, asserted in the complaint, the plaintiff’s attorney was unable to determine whether filing within the exclusive jurisdiction of the federal or state court was possible. See *id.* at n.165; see also *Bassett*, 204 F.3d at 353. Furthermore, the complaint will not necessarily reveal whether its claim of infringement and prayer for copyright remedies is “incidental to” a contract dispute. See Wanat, *supra* note 5, at 389.

Second, “the [*Bassett*] court noted that because the plaintiff’s complaint may be grounded in copyright infringement, a federal court had no reason to question an assertion of jurisdiction under section 1338(a).” *Id.*; see also *Scandinavian Satellite Sys., AS v. Prime TV Ltd.*, 291 F.3d 839 (D.C. Cir. 2002); *Bassett*, 204 F.3d at 353. Therefore, the face of the complaint raised no issue of whether the copyright infringement claim was incidental to a contract claim. See *Bassett*, 204 F.3d at 354. In answer to the plaintiff’s copyright infringement claim, “the defendant, like the plaintiff, may think it desirable to have them adjudicated in federal court” *Id.* As a result, the defendant’s answer may not raise the dominance of the contracts issues at the pleading stage. See *id.* At that point, the federal court cannot even rely on the defendant to raise the “incidental” nature of the copyright issues at the pleading stage of the proceeding. See Wanat, *supra* note 5, at 389.

In raising a third difficulty with *Schoenberg*, the *Bassett* court noted that the test required the court to determine factually complex issues relating to the merits at the outset of the litigation process, before the court could even familiarize itself with the case. See *id.* These factual determinations in turn could require extensive hearings. See *id.* Therefore, it appears that the *Bassett* court concerned itself with the viability of resolving the subject matter jurisdictional issue near the outset of the suit, as well as its inability to decide that issue without an adjudication of the copyright infringement and breach of contract claims. See *id.* at 390.

Finally, the *Bassett* court explained that the *Schoenberg* court, in deviating from the *T.B. Harms* test, failed to follow governing Supreme Court authority upon which the latter relied. See *Bassett*, 204 F.3d at 348-49, 355. The *Bassett* court could not reconcile the *Schoenberg II* court’s reliance on whether the disputed issues focused on matters of contract ownership rather than copyright with the *American Well Works* formulation that a “suit arises under the law that creates the cause of action.” *Id.* at 355. Furthermore, the test conflicted with the well-established approach to federal question jurisdiction, pursuant to which courts determine jurisdiction by ascertaining whether the plaintiff’s complaint asserts a right under federal law. See Netanel, *supra* note 114, at 48-49.

of *Harms's* more nebulous language.¹²⁰ As such, the *Bassett* court determined: (1) the "suit arises under the law that creates the cause of action,"¹²¹ and (2) jurisdiction should be decided based upon the allegations within the plaintiff's complaint.¹²² Ultimately, the *Bassett* court concluded that federal courts could properly exercise jurisdiction *when a complaint alleges a claim or seeks a remedy provided by the Act*.¹²³

The "well-pleaded complaint" standard also suffers from a significant weakness.¹²⁴ Federal courts exercise jurisdiction based on the face of the plaintiff's complaint.¹²⁵ Facts introduced subsequent to the pleadings phase of the proceeding, however, may reveal that the plaintiff failed to raise a copyright claim.¹²⁶ In this situation, a dismissal on jurisdictional grounds is inappropriate.¹²⁷ Rather, the court, upon finding jurisdiction, should enter judgment on the merits against the plaintiff finding that no copyright claim existed.¹²⁸

c. The *Schoenberg* Test

Because of the uncertainty left in the wake of *T.B. Harms*, the Second Circuit in *Schoenberg* embraced a test to ensure certainty and

120. See *T.B. Harms Co. v. Eliscu*, 339 F.2d 823, 828 (2d Cir. 1964). The second and third categories in the *T.B. Harms* test have created substantial confusion among federal courts.

121. See *Bassett*, 204 F.3d at 355 (discussing aspect of court's holding in case); see also *Am. Well Works Co. v. Layne & Bowler Co.*, 241 U.S. 257, 260 (1916). For further discussion of *American Well Works*, see *supra* notes 64-66 and accompanying text.

122. See *Bassett*, 204 F.3d at 355 (discussing aspect of court's holding in case); see also *The Fair v. Kohler Die & Specialty Co.*, 228 U.S. 22, 25 (1913) ("[T]he party who brings a suit is master to decide what law he will rely upon, and therefore does determine whether he will bring a 'suit arising under' the patent or other law of the United States by his declaration or bill."); *Bassett*, 204 F.3d at 355 (noting federal courts must determine from face of plaintiff's complaint whether they can properly exercise federal subject matter jurisdiction under § 1338(a)) (citing *Taylor v. Anderson*, 234 U.S. 74, 75 (1914)).

123. See *Bassett*, 204 F.3d at 355. The court excluded the remaining two prongs of the *T.B. Harms* test from its analysis. See *id.*

124. See *Wanat*, *supra* note 5, at 394 (noting flaws of "well-pleaded complaint" standard).

125. See *id.* (discussing method courts apply in determining whether complaint is sufficiently "well-pleaded" to properly exercise federal subject matter jurisdiction).

126. See *id.* at 394-95 (explaining flaws of "well-pleaded complaint" standard).

127. See *id.*

128. See *id.* (explaining action courts should take when no copyright claim exists under "well-pleaded complaint" standard).

uniformity among the courts within that circuit.¹²⁹ The court selected a unique interpretation in an effort to ensure fairness, predictability, and equity among other courts.¹³⁰ In that case, Schoenberg, the owner of a copyright in a literary work, claimed that the defendants, book publishers, breached their licensing contract with him and thereafter infringed his copyright by publishing and offering his work for sale.¹³¹ On appeal from a judgment holding one of the defendant's former attorneys in contempt, the attorney took the position that because the copyright infringement action was simply a contracts claim "disguised" as one of infringement, the district court lacked jurisdiction over that dispute and, therefore, erred in holding him in contempt.¹³²

In its analysis, the Second Circuit looked to its decision in *T.B. Harms* for guidance.¹³³ However, the court recognized that *T.B. Harms*, which focused solely on the ownership issue without any allegations of infringement, did not address the problem in the instant case.¹³⁴ The unique jurisdictional issue facing the *Schoenberg* court was whether a claim asserting infringement because of a breach of contract licensing or assignment of a copyright "arose

129. For a discussion of the *Schoenberg* test, see *infra* notes 130-56 and accompanying text.

130. See Fleischman, *supra* note 5, at 134 (noting Second Circuit's attempt to eliminate as much confusion and complexity as possible by adopting uniform rule).

131. See *Schoenberg v. Shapolsky Pubs., Inc.*, 971 F.2d 926, 928-30 (2d Cir. 1992) (discussing facts of case). Schoenberg entered into a publishing agreement with Steimatzy Publishing of North America, Inc., whereby the latter would publish Schoenberg's work. See *id.* at 928. Schoenberg retained the copyright, but granted a license to Steimatzy to publish the book. See *id.* Steimatzy agreed to perform four duties. See *id.* After publication of the book in 1989, Schoenberg filed suit in the United States District Court for the Southern District of New York, alleging that the publishers had breached the contract by failing to perform the four duties to which they had agreed. See *id.*

132. The district court granted the plaintiff's motion to compel discovery. See *Schoenberg v. Shapolsky Pubs.*, 140 F.R.D. 282, 283-84 (S.D.N.Y. 1991), *vacated by* 971 F.2d 926 (2d Cir. 1992) [hereinafter *Schoenberg I*]. The defendant's attorney, however, refused to comply with the motion on the grounds the court should permit him to file a motion to dismiss for lack of subject matter jurisdiction before being required to complete discovery. See *id.* at 285. After the Second Circuit denied his petition for a writ of mandamus requesting vacation of the Rule 37 order, the defendant's attorney maintained his refusal to comply with the order and the Second Circuit held him in contempt of that order. See *id.*

133. See *Schoenberg II*, 971 F.2d at 931 (recognizing difficulty court experienced during its analysis). The court recognized the difficulty level of the case, characterizing it as a complex issue in a "murky" area that had confounded and divided the Second Circuit. See *id.*

134. See Fleischman, *supra* note 5, at 135 (noting *Schoenberg II* court's inability to apply *T.B. Harms* test because facts and issues presented in each case differed).

under” the Act.¹³⁵ Therefore, the court held the *T.B. Harms* test inapplicable.¹³⁶ Unable to find a satisfactory doctrine, the Second Circuit looked beyond the boundaries of its own decisions and developed a three-prong test to clarify a similar test applied by the District of Columbia circuit court in *Costello Publishing Co., Inc. v. Rotelle*.¹³⁷

Under this test, a district court must first determine whether the infringement claim is merely “incidental” to the claim for a determination of ownership or contractual rights.¹³⁸ Second, the court must determine whether the claim is more than incidental and whether the complaint alleges a breach of a covenant or a condition.¹³⁹ Third, if the complaint alleges breach of a covenant, the court must ascertain whether the breach is so material as to provide the grantor a right of rescission.¹⁴⁰ The asserted claim “arises under” the Act if the breach would create a right of rescission.¹⁴¹

Although the three-prong *Schoenberg* test appears to provide an orderly procedure for federal courts to follow in determining

135. See Wanat, *supra* note 5, at 386 (discussing issue in case); see also *T.B. Harms Co. v. Eliscu*, 339 F.2d 823, 828 (2d Cir. 1964). In *T.B. Harms*, the court determined that an action “arises under” the Act if, and only if, the complaint seeks a remedy expressly granted by the Act. See *id.* Because Schoenberg sought damages for alleged infringement, as well as an injunction against future infringements, the court held that he clearly asserted a claim “arising under” the Act. See *Schoenberg II*, 971 F.2d at 931.

136. See *Schoenberg II*, 971 F.2d at 931 (discussing court’s rationale). Although the *T.B. Harms* court concluded that federal subject matter jurisdiction did not arise where the sole issue was one of copyright ownership without any allegations of infringement, the *Schoenberg II* court determined that the *T.B. Harms* court failed to address the problem. See *id.*

137. 670 F.2d 1035, 1045 (D.C. Cir. 1981). The *Schoenberg II* court looked to *Costello* after failing to find a satisfactory doctrine within the Second Circuit. See *Schoenberg II*, 971 F.2d at 932. Under this test, “a district court must [first] determine whether the complaint alleges a breach of condition to, or a covenant of, the contract licensing or assigning the copyright.” *Id.*; see also *Costello*, 670 F.2d at 1045. If a plaintiff alleges a breach of a condition, then the district court may exercise subject matter jurisdiction. See *id.* If the complaint merely alleges a breach of a covenant in the agreement licensing or assigning the copyright, however, then the court must next determine whether the breach is so material that it created a right of rescission in the grantor. See *id.* If a breach would create a right of rescission, then the asserted claim “arises under” the Act. See *id.*

138. See *Schoenberg II*, 971 F.2d at 932 (describing first prong of test); see also *Costello*, 670 F.2d at 1045.

139. See *Schoenberg II*, 971 F.2d at 932 (describing second prong of test); see also *Costello*, 670 F.2d at 1045.

140. See *Schoenberg II*, 971 F.2d at 932-33 (describing third prong of test); see also *Costello*, 670 F.2d at 1045.

141. See Fleischman, *supra* note 5, at 136 (explaining third prong of test).

whether a claim “arises under” the Act, each part of the test contains inherent weaknesses.¹⁴²

i. Prong One: An Incidental Complaint

Under the first prong, a district court, when faced with a complaint for copyright infringement based upon breach of a licensing contract, must determine whether the contract or copyright claims are merely incidental to each other.¹⁴³ The term “incidental” may become problematic because it invariably permits judges to exercise excessive discretion.¹⁴⁴ While judicial discretion creates no problem in most cases, it may result in two judges deciding the same case differently, effectively removing the predictability upon which many rely in dealing with the judicial system.¹⁴⁵

ii. Prong Two: Breach of Condition or Covenant

Under the second prong, the district court should determine whether the complaint alleges a breach of a condition or a breach of a covenant in the licensing contract.¹⁴⁶ The *Schoenberg* test states that if the complaint alleges breach of a condition of the contract, then federal subject matter jurisdiction exists.¹⁴⁷ If a covenant is allegedly violated, however, the district court should proceed to the third prong.¹⁴⁸

A criticism of this prong goes back to the Supreme Court decision in *Luckett v. Delpark, Inc.*¹⁴⁹ In its opinion, the Court explicitly stated that where a complainant “makes his suit one for recovery of

142. See *id.* at 137-39 (noting deficiencies of *Schoenberg* test).

143. See *Schoenberg II*, 971 F.2d at 932 (delineating first part of test).

144. See *Fleischman*, *supra* note 5, at 137. But see *McCarthy*, *supra* note 5, at 192 (noting two policy reasons demonstrate need for this first level of inquiry). First, it would be inconsistent with the policies of the Act to limit a copyright holder to state law remedies when Congress both provides remedies for infringement and gives federal courts exclusive jurisdiction to award them. See *id.* Prevention of fraud constitutes the second policy concern supporting this first level of inquiry. See *id.*

145. But see *T.B. Harms Co. v. Eliscu*, 339 F.2d 823 (2d Cir. 1964) (noting court's exercise of judicial discretion did not interfere with or impose upon involved parties).

146. See *Schoenberg II*, 971 F.2d at 932 (delineating second prong of test).

147. See *id.* at 932-33.

148. See *id.* (explaining application of test). In undertaking this third step, the court “analyze[s] whether the breach is so material as to create a right of rescission in the grantor.” *Id.* at 933.

149. 270 U.S. 496 (1926). In *Luckett*, the Court held that an action against a patent licensee — requesting royalties owed, an accounting, and an injunction against future alleged infringements — did not “arise under” the patent laws, and, therefore, the Court could not exercise federal subject matter jurisdiction. See *id.* at 510. “‘Covenant’ is distinguished from a ‘condition’ in that the former goes to

royalties under a contract of license or assignment, or for damages for a breach of its covenants . . . he does not give the federal district court jurisdiction”¹⁵⁰ The Second Circuit demonstrated inconsistency when it departed, without providing its reason for doing so, from precedent upon which it relied so heavily.¹⁵¹

iii. Prong Three: Rescission

The third prong of the *Schoenberg* test applies in the event the alleged breach of contract is merely a breach of a covenant within the contract.¹⁵² If the alleged breach pertains to a covenant, the relevant issue becomes whether that covenant creates a right of rescission on the part of the plaintiff.¹⁵³ The term “right of rescission,” in and of itself, carries an unclear meaning.¹⁵⁴

The problem with this prong becomes clear, however, if courts interpret “right of rescission” to mean what it does in the normal course of dealings.¹⁵⁵ If they do so, then many federal courts will continue to exercise jurisdiction over cases solely alleging breaches of contract.¹⁵⁶

IV. NARRATIVE ANALYSIS

On appeal, the *Scholastic* court affirmed the district court’s dismissal of Fox’s counterclaims for lack of subject matter jurisdiction.¹⁵⁷ Recognizing the issue as complex and heavily fact

the very meaning and purpose of the contract while the latter only a component of it.” Fleischman, *supra* note 5, at 138 n.118.

150. *Luckett*, 270 U.S. at 510 (emphasis added) (discussing Court’s reasoning in case).

151. See Fleischman, *supra* note 5, at 138. The *T.B. Harms* court cited the *Luckett* case extensively. See *id.* at n.119. Because the Second Circuit supported, rather than undermined, the court’s decision, it remains “good law.” See *id.*

152. See *Schoenberg II*, 971 F.2d at 932-33 (delineating third prong of test).

153. See *id.*

154. See Fleischman, *supra* note 5, at 138 (identifying term “right of rescission” as vague). See generally *Rotardier v. Entm’t Co. Music Group*, 518 F. Supp. 919 (S.D.N.Y. 1981) (explaining weakness of test’s third prong). The issue in that case involved a covenant. See *id.* at 921. Violation of the covenant gave rise to the plaintiff’s right of rescission, but the court could not exercise jurisdiction because it found the infringement to be merely incidental. See *id.*

155. See Fleischman, *supra* note 5, at 138-39. The third prong essentially forms a loop back to the first prong. See *id.* “Assuming that a claim for copyright infringement is not incidental, it must be determined whether the claim is for the violation of a condition or a covenant.” *Id.* at 139. If the claim is for a covenant, the court must decide whether a right of rescission exists. See *id.*

156. See *id.* (noting potential for future problems with third prong if not clarified).

157. See *Scholastic Entm’t, Inc. v. Fox Entm’t Group, Inc.*, 336 F.3d 982, 989 (9th Cir. 2003). The district court held that Scholastic’s success in terminating the

dependent, the court applied the *T.B. Harms* test, which it designated as the “majority rule,” to determine whether it could exercise jurisdiction.¹⁵⁸ The court focused its analysis on this test’s first category, which states that a complaint “arises under” the Act if, and only if, it seeks a remedy expressly granted by the Act.¹⁵⁹ While it acknowledged the importance of the remaining two categories, the court found them inapplicable to the instant facts in the case.¹⁶⁰

A. Resolving the Ownership Dispute

The *Scholastic* court analyzed the rationale of several earlier Ninth Circuit decisions to determine whether Fox’s counterclaims sought a remedy expressly granted by the Act.¹⁶¹ The Ninth Circuit, in reversing the district court’s holding in *Topolos*, determined that the plaintiff successfully fulfilled the pleading requirements by alleging both ownership and infringement.¹⁶² As the Ninth Circuit noted, a qualified infringement allegation suffices as a clear question of copyright law.¹⁶³ Unlike the plaintiff in *Topolos*, however,

agreement constituted a pure question of state contract law appropriate for adjudication in state court. *See id.*

158. *See id.* at 986 (noting first instance where any circuit has addressed *T.B. Harms* test as majority rule); *see also* Tech Law Journal Daily E-mail Alert, at <http://www.techlawjournal.com/alert/2003/07/21.asp> (July 21, 2003) (explaining Ninth Circuit’s adoption of *T.B. Harms* as majority rule). *See generally* Scandinavian Satellite Sys., AS v. Prime TV Ltd., 291 F.3d 839, 844 (D.C. Cir. 2002) (explaining Ninth Circuit’s adoption of *T.B. Harms* as majority rule); Bassett v. Mashantucket Pequot Tribe, 204 F.3d 343, 347 (2d Cir. 2000) (addressing *T.B. Harms* test as trend rule); Dolch v. United Cal. Bank, 702 F.2d 178, 180 (9th Cir. 1983) (noting adoption by Ninth Circuit of *T.B. Harms* as majority rule).

159. *See Scholastic*, 336 F.3d at 986 (discussing court’s analysis in case). The court noted that the *T.B. Harms* test was “essentially a reiteration of the ‘well-pleaded complaint’ rule.” *Id.* In other words, federal subject matter jurisdiction existed only when the face of the complaint presented a federal question. *See id.* For further discussion of the *T.B. Harms* test, *see supra* notes 71-73 and accompanying text. For further discussion of the “well-pleaded complaint” standard, *see supra* notes 99-128 and accompanying text.

160. *See Scholastic*, 336 F.3d at 986-89 (noting court did not adopt second or third prongs of *T.B. Harms* test in either part of its analysis).

161. *See id.* (noting court’s reliance on Ninth Circuit precedent because of issue’s complexity). The court recognized the merit in applying earlier Ninth Circuit decisions to aid in its analysis. *See id.*

162. *See id.* at 987; *see also* *Topolos v. Caldewey*, 698 F.2d 991, 993-95 (9th Cir. 1983) (discussing rationale of *Topolos* court’s holding). The *Scholastic* court concluded, “it was obvious” that *Topolos*’ “claim required a determination as to whether the two works . . . were sufficiently similar to warrant a finding of infringement — a clear question of copyright law.” *Scholastic*, 336 F.3d at 987.

163. For further discussion of *Topolos*, *see supra* notes 85-88 and accompanying text.

the *Scholastic* court concluded that Fox had not alleged such an infringement claim.¹⁶⁴

The *Scholastic* court also looked to *Effects Associates, Inc. v. Cohen*¹⁶⁵ for guidance.¹⁶⁶ There, the Ninth Circuit focused its analysis on the issue of ownership, ultimately concluding that copyright ownership always constitutes a threshold question in determining whether federal subject matter jurisdiction exists.¹⁶⁷ In agreement with the circuit court's reasoning in *Effects*, the *Scholastic* court held that existence of an ownership issue coupled with a copyright issue does not necessarily prevent courts from exercising federal subject matter jurisdiction.¹⁶⁸

The *Scholastic* court solidified its analysis with the Ninth Circuit's decision in *Vestron, Inc. v. Home Box Office, Inc.*¹⁶⁹ Both *Vestron* and *Scholastic* involved a disagreement over the terms of a contract concerning ownership of a copyright.¹⁷⁰ In *Vestron*, the Ninth Circuit held that the ownership issue constituted a threshold factor in determining whether a claim "arose under" the Act.¹⁷¹ Distinguishing *Vestron* on its facts, the *Scholastic* court held the ownership issue comprised the sole issue between Fox and *Scholastic*.¹⁷² As a result

164. See *Scholastic*, 336 F.3d at 989 (discussing aspect of court's holding in case).

165. 817 F.2d 72 (9th Cir. 1987).

166. See *Scholastic*, 336 F.3d at 987-88 (discussing aspect of court's rationale).

167. See *Effects Assocs., Inc.* 817 F.2d at 74 (reviewing *Effects* court's reasoning in case). The court further reasoned that when such ownership comprised the sole question for consideration, federal courts lacked exclusive jurisdiction. See *id.*

168. See *Scholastic*, 336 F.3d at 988 (discussing court's analysis of ownership issues in copyright cases). But see *Int'l Armor & Limousine Co. v. Moloney Coachbuilders, Inc.*, 272 F.3d 912, 913-15 (7th Cir. 2001) (noting Seventh Circuit's contradictory view regarding disputes concerning ownership of copyrights and whether they "arise under" federal law). In *Int'l Armor*, the Seventh Circuit held that because "the only serious dispute is how the contracts . . . allocate ownership rights in the Moloney name and business history, . . . the dispute arises under the law of contracts; any trademark claims are entirely derivative of the contract issues." *Id.* at 916. Accordingly, the court held that the claim did not "arise under" the Act and dismissed the case for lack of subject matter jurisdiction. See *id.* at 918.

The court in *Scandinavian Satellite* concluded the Seventh Circuit's holding represented "a misguided interpretation of the *T.B. Harms* test . . . and it surely does not square with the Second Circuit's application of *T.B. Harms* in *Bassett*." 291 F.3d 839, 845 (D.C. Cir. 2002). In the *Scandinavian Satellite* court's view, "the Seventh Circuit's position is premised on an unduly narrow and unrealistic reading of § 1338(a)." *Id.*

169. 839 F.2d 1380 (9th Cir. 1988).

170. Compare *Vestron*, 839 F.2d at 1380-81 with *Scholastic*, 336 F.3d at 983-85 (noting factual differences, specifically as they relate to ownership, between both cases).

171. See *Scholastic*, 336 F.3d at 988 (discussing court's reasoning in *Vestron*).

172. See *id.*; see also *Vestron*, 839 F.2d at 1381-82. The fact that the plaintiff, *Vestron*, claimed ownership of the copyrights through a disputed contract gov-

of this determination, the court concluded it could not properly exercise federal subject matter jurisdiction.¹⁷³

B. Rebutting Fox's Final Argument Supporting Federal Jurisdiction

The court briefly entertained Fox's final argument that the Act governed Scholastic's attempt to terminate the agreement, thereby permitting federal court to hear the case.¹⁷⁴ Relying on Ninth Circuit precedent, however, the court stressed the importance of applying state law to resolve those matters not addressed by the Act.¹⁷⁵ Accordingly, the *Scholastic* court concluded that Fox's argument hinged upon whether Scholastic's termination concerned an issue addressed by the Act.¹⁷⁶ The court found that § 203 of the Act governed the termination of a copyright license of indefinite duration.¹⁷⁷ Because the *Goosebumps* contract was scheduled to expire in 2013, the court determined neither § 203 nor any other provision of the Act governed Scholastic's right to terminate or rescind the agreed-upon license.¹⁷⁸ The court therefore concluded that, because Fox's counterclaims failed to adequately seek a remedy expressly granted by the Act, it could not properly exercise federal subject matter jurisdiction.¹⁷⁹ As a result, the court held California state law governed this determination.¹⁸⁰

erned by state law did not preclude federal subject matter jurisdiction. *See id.* at 1382. "[T]he beneficial owner of a copyright . . . is entitled to establish the facts supporting his claim of beneficial ownership, even though that may require interpretation of a contract." *Id.* (citing *Topolos v. Caldewey*, 698 F.2d 991, 994 (9th Cir. 1983)). "[Home Box Office, Inc.]'s intention to contest Vestron's alleged ownership as part of its defense, regardless of any potential for success, did not affect jurisdiction." *Id.*

173. *See Scholastic*, 336 F.3d at 989 (discussing court's holding in case).

174. *See id.* at 988 (discussing one of Fox's arguments supporting federal subject matter jurisdiction).

175. *See id.* (noting important distinction between claims seeking remedy under Act and those failing to do so).

176. *See id.* (noting *Scholastic* court's holding in case). The court stressed the necessity of addressing termination issues by the Act before it could properly invoke federal subject matter jurisdiction. *See id.*

177. *See id.*; *see also* 17 U.S.C. § 203 (2000).

178. *See Scholastic*, 336 F.3d at 988 (discussing court's reasoning concerning termination of contract and whether it was addressed by Act).

179. *See id.* at 989 (reviewing *Scholastic* court's ultimate disposition in case).

180. *See id.* (noting court's relegation of Fox's counterclaims to state court for adjudication).

V. CRITICAL ANALYSIS: DEFINING A CLEAR AND CONSISTENT STANDARD

The *Scholastic* court astutely noted the difficult yet crucial distinction between claims “arising under” the Act and those merely seeking a determination of ownership.¹⁸¹ More importantly, however, the court laid precedent when it established the *T.B. Harms* test as the majority rule to follow when confronted with interdependent copyright and contract claims.¹⁸² The court further recognized the similarities between the *T.B. Harms* test and the “well-pleaded complaint” rule.¹⁸³ In doing so, it effectively stated federal courts might exercise federal subject matter jurisdiction only when a federal question appears on the face of a properly pleaded complaint.¹⁸⁴

While the court adopted the “well-pleaded complaint”/*T.B. Harms* standard, it also unknowingly applied the “essence of the claim” standard with respect to the ownership issue and whether it “arose under” the Act.¹⁸⁵ In reaching its conclusion, however, the court’s analysis exemplifies the problems other courts experience when attempting to make similar determinations.¹⁸⁶

Although the court unintentionally applied both the “well-pleaded complaint” and “essence” standard, concurrent application of both standards in the analysis of future courts merits serious consideration.¹⁸⁷ Courts should apply the “well-pleaded complaint” standard because of its requirement that a complainant seek a remedy expressly granted by the Act.¹⁸⁸

181. See *id.* at 986 (discussing court’s reasoning in case).

182. See *id.* The court held that the *T.B. Harms* test constituted the majority rule in determining whether actions involving interdependent copyright and contract claims “arise under” the Act. See *id.*

183. See *Scholastic*, 336 F.3d at 986 (discussing court’s rationale). The court determined that the test delineated in *T.B. Harms* constituted a “reiteration” of the “well-pleaded complaint” rule. *Id.*

184. See *id.*; see also *T.B. Harms Co. v. Eliscu*, 339 F.2d 823, 828 (2d Cir. 1964) (discussing nature of well-pleaded complaint).

185. See *Scholastic*, 336 F.3d at 986-88 (noting court’s incorporation of “essence” standard by looking to substance of Fox’s counterclaims).

186. For further discussion of courts’ varying interpretations with respect to determining whether they may exercise federal subject matter jurisdiction over interdependent copyright and contract claims, see *supra* notes 75-156 and accompanying text.

187. See McCarthy, *supra* note 5, at 191-94 (noting possible combination of both “essence” and “well-pleaded complaint” standards by courts to advance their reasoning and promote consistency); see also Fleischman, *supra* note 5, at 142-45.

188. See *T.B. Harms*, 339 F.2d at 828. For further discussion of the first prong of the *T.B. Harms* test, see *supra* note 71.

Furthermore, two policy reasons support the need for applying the “well-pleaded complaint” standard.¹⁸⁹ First, it would be inconsistent with the policies of the Act to limit a copyright holder to state law remedies when Congress has provided federal remedies for infringement and has given federal courts exclusive jurisdiction to award them.¹⁹⁰ Additionally, applying the “well-pleaded complaint” standard helps prevent fraud.¹⁹¹

Application of only the “essence” standard allows for the possibility that a copyright infringer will escape proper federal subject matter jurisdiction through an unfounded allegation that use of the copyrighted material fell within the terms of an oral license agreement.¹⁹² Nevertheless, a competing concern also exists for the necessity of incorporating the “essence” standard into a court’s analysis.¹⁹³ Because of the inherent concerns present when either only the “essence” or “well-pleaded complaint” standards is incorporated into a court’s analysis, the following proposed test demonstrates the need to apply the “essence” standard in conjunction with that of the “well-pleaded complaint.”¹⁹⁴

Under this proposed test, a court should first read the complaint.¹⁹⁵ If the court determines the complaint to be grounded in copyright, then it inherently involves a case for copyright.¹⁹⁶ The Act permits federal courts the discretion to grant injunctive re-

189. See McCarthy, *supra* note 5, at 192 (discussing importance of incorporating “well-pleaded complaint” standard into analysis). For further discussion of the “well-pleaded complaint” standard, see *supra* notes 99-128 and accompanying text.

190. See McCarthy, *supra* note 5, at 192. If a court fails to incorporate the “well-pleaded” standard into its analysis, and follows the “essence” standard exclusively, that court may effectively deny a copyright owner a proper federal forum. See *id.*

191. See *id.* (discussing second policy concern in favor of applying “well-pleaded complaint” standard).

192. See *id.* (noting potential problems if court fails to apply “well-pleaded complaint” standard).

193. See *id.* (discussing importance of courts’ incorporation of the “essence” standard in their reasoning). Some copyright and contract cases involve copyright questions so insubstantial as should cause a court to deny federal subject matter jurisdiction. See *id.* A skillfully drafted, “well-pleaded complaint,” however, might allow a plaintiff to gain federal subject matter jurisdiction when it would otherwise be improper. See *id.*

194. See Fleischman, *supra* note 5, at 141-42 (discussing merit of applying both standards in jurisdiction analysis); see also McCarthy, *supra* note 5, at 191-94.

195. See Fleischman, *supra* note 5, at 142 (discussing first prong courts should adopt when undertaking this analysis).

196. See *id.* Although the issue of whether the copyright claim dominates might complicate matters, one can overcome this complication relatively quickly and effectively. See *id.*

lief.¹⁹⁷ Even if injunctive relief is requested, however, it does not necessarily follow that a copyright claim has been stated.¹⁹⁸

Assuming the plaintiff requests injunctive relief, the court should move to the second step in its analysis.¹⁹⁹ This second step incorporates various facets of the “essence” standard without the subjectivity that results from the application of such a standard.²⁰⁰

As its next step, the court should determine the cause of the suit.²⁰¹ If the complaint arises out of a copyright license, then under this step the court must determine who suffered the harm and who benefited by the breach of the license, and to what degree the conflict affected each party.²⁰² In contrast to a breach of contract where a non-deserving party obtains something and the other party fails to receive something it reasonably believes is owed, the copyright infringer obtains something he or she does not deserve, while the copyright holder loses the right to something that he or she still owns.²⁰³ This occurrence constitutes theft “in the abstract, though on its face it is a violation of a contract right.”²⁰⁴

Finally, the court should determine whether this theft actually occurred.²⁰⁵ Such a theft occurs if the plaintiff, a copyright holder, alleges a violation of a right normally secured by the federal copyright laws.²⁰⁶ Accordingly, if the theft actually occurs, a federal court must then hear the action.²⁰⁷

197. *See id.* (discussing aspect of Act). If a plaintiff seeks damages, then no claim upon which relief can be granted exists. *See id.*

198. *See id.* (noting federal as well as state courts may grant injunctions in variety of suits, copyright being only one of them).

199. *See id.* (explaining second prong of analysis courts should adopt under this proposed test). Typically, plaintiffs alleging infringement request injunctive relief. *See id.*

200. *See Fleischman, supra* note 5, at 142. Under this second level of analysis, the court must look not only to what is being requested, but also at what the plaintiff requests and what the plaintiff owned before bringing the suit. *See id.*

201. *See id.*; *see also McCarthy, supra* note 5, at 192-93 (elaborating on second prong of proposed test).

202. *See Fleischman, supra* note 5, at 142.

203. *See id.* (noting distinction between party breaching contract and copyright infringement).

204. *Id.* In other words, an action involving two parties bargaining to exchange something constitutes a contract claim. *See id.* at 143. “If, however, it is for one party to recover something that has been stolen, then [the claim] is for copyright infringement.” *Id.*

205. *See id.* at 142 (discussing final part of court’s analysis).

206. *See id.* (defining when theft occurs for purposes of proposed test).

207. *See Fleischman, supra* note 5, at 142. This test “shakes” the criticism of the “essence” standard that states judges should look to what they perceive to constitute the plaintiff’s primary and controlling purpose. *See id.* at 144. “Once a determination has been made regarding what the plaintiff had and what the plaintiff seeks to recover, the primary purpose becomes clear.” *Id.*

VI. IMPACT: WHERE DOES THE LAW CURRENTLY LEAVE COPYRIGHT OWNERS?

Some consider a claim involving interdependent copyright and contract claims one of the “knottiest problems in copyright jurisprudence.”²⁰⁸ As a result, federal courts experienced difficulty in establishing a uniform method for determining whether these types of claims “arise under” the Act.²⁰⁹ Almost one-half century after *T.B. Harms* and the varying interpretations that case spawned, it appears courts continue to disagree over what standard they should apply in their respective analyses.²¹⁰ An important reason that explains this disagreement is the fact that each standard carries both positive and negative characteristics.²¹¹ For example, adopting the “essence” standard ensures that, once resolved, the court has before it a copyright claim of sufficient significance to the outcome of the dispute to justify its exercise of exclusive jurisdiction.²¹² On the other hand, this standard fails to make a sharper distinction between the § 1338(a) jurisdictional issue and a merits determination.²¹³

A proposed standard, which incorporates both the “well-pleaded complaint” and “essence” approaches, boasts stability and coherence, effectively allowing federal courts and future litigants some degree of predictability and stability.²¹⁴ Furthermore, it will permit the courts some necessary discretion.²¹⁵ American jurisprudence requires such discretion; however, courts must not receive

208. See NIMMER, *supra* note 7, at 12-14. (recognizing the difficulties inherent in cases involving interdependent copyright and contract claims).

209. For further discussion of court struggles with cases involving interdependent copyright and contract claims, see *supra* notes 44-156 and accompanying text.

210. For further discussion of different interpretations courts adopt in determining whether a claim “arises under” the Act, see *supra* notes 75-156 and accompanying text.

211. For further discussion regarding strengths and weaknesses of each of the three standards, see *supra* notes 75-156 and accompanying text.

212. For further discussion of the “essence of the claim” standard, see *supra* notes 78-98 and accompanying text.

213. The “essence” standard provides a clear example of the strengths and weaknesses contained in each approach. See Fleischman, *supra* note 5, at 142-44. For further discussion addressing weaknesses of the “essence of the claim” standard, see *supra* notes 78-98 and accompanying text.

214. See Fleischman, *supra* note 5, at 142-44. For further discussion of the proposed test, see *supra* notes 195-207 and accompanying text.

215. See *id.* This test is intended to combine the three views adopted from *T.B. Harms*. See *id.* It involves combining the “essence” and “well-pleaded complaint” standards as well as providing future courts with more discretion in making their decisions. See *id.* But see *Schoenberg v. Shapolsky Pub., Inc.*, 971 F.2d 926, 933 (2d Cir. 1992) (noting *Schoenberg* test permits excessive discretion by courts).

virtually unfettered authority as the *Schoenberg* court attempted to do with its three-prong test.²¹⁶

This proposed standard might permit our judicial system to function on a more efficient, effective, and fair level, which in turn may instill confidence in future artists seeking protection of their works.²¹⁷ Therefore, if courts follow this standard in future cases, the current state of confusion may give way to uniformity and predictability, allowing the federal judicial system to keep pace with the rapidly evolving field of intellectual property.²¹⁸

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216. See Fleischman, *supra* note 5, at 145. For further discussion of the *Schoenberg* test and its weaknesses, see *supra* notes 129-56 and accompanying text.

217. See *id.* (discussing potential benefits of proposed test).

218. See generally McCarthy, *supra* note 5, at 194-95 (discussing need for consistent approach taken by future courts faced with interdependent copyright and contract claims).